



**Default Prevention: You Are The Key!**

**August 1, 2002**



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# ***Default Management Overview***

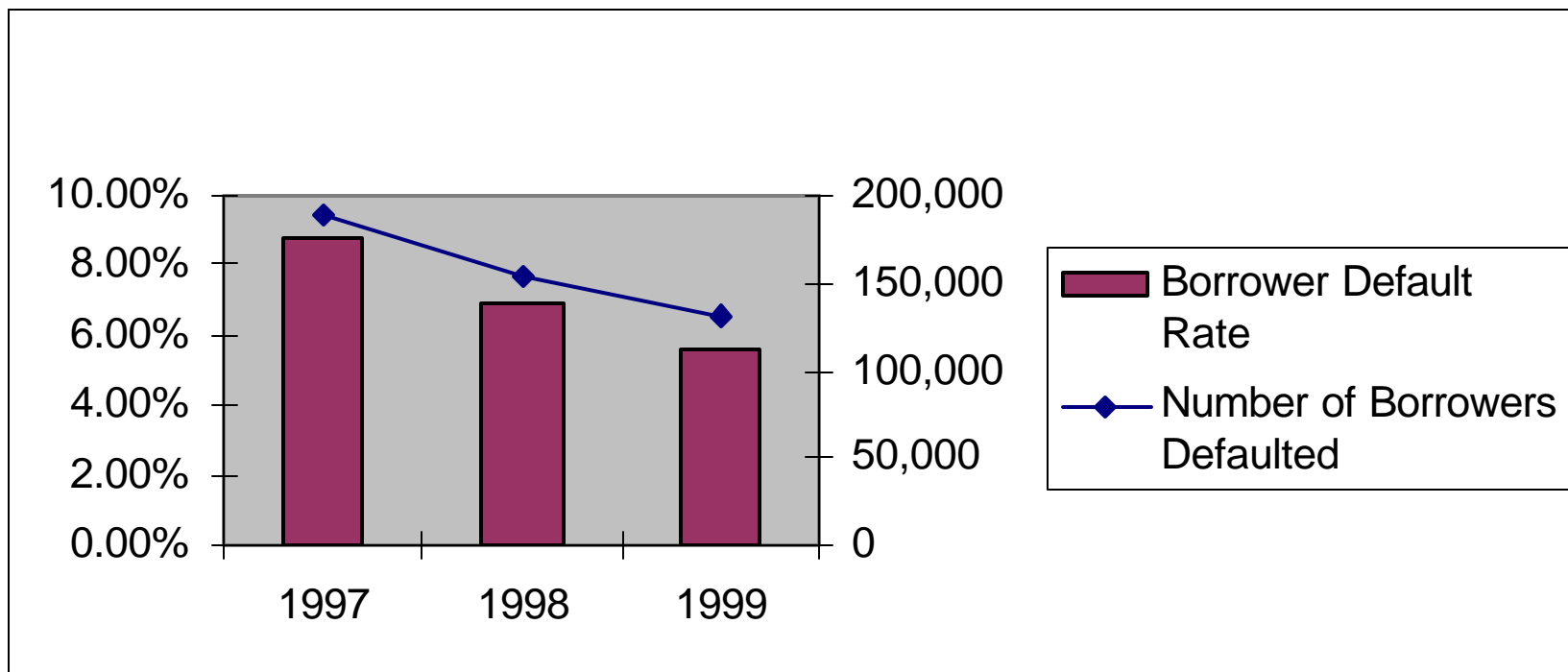
Sue Goldman

Department of Education





# Default Rate Trend





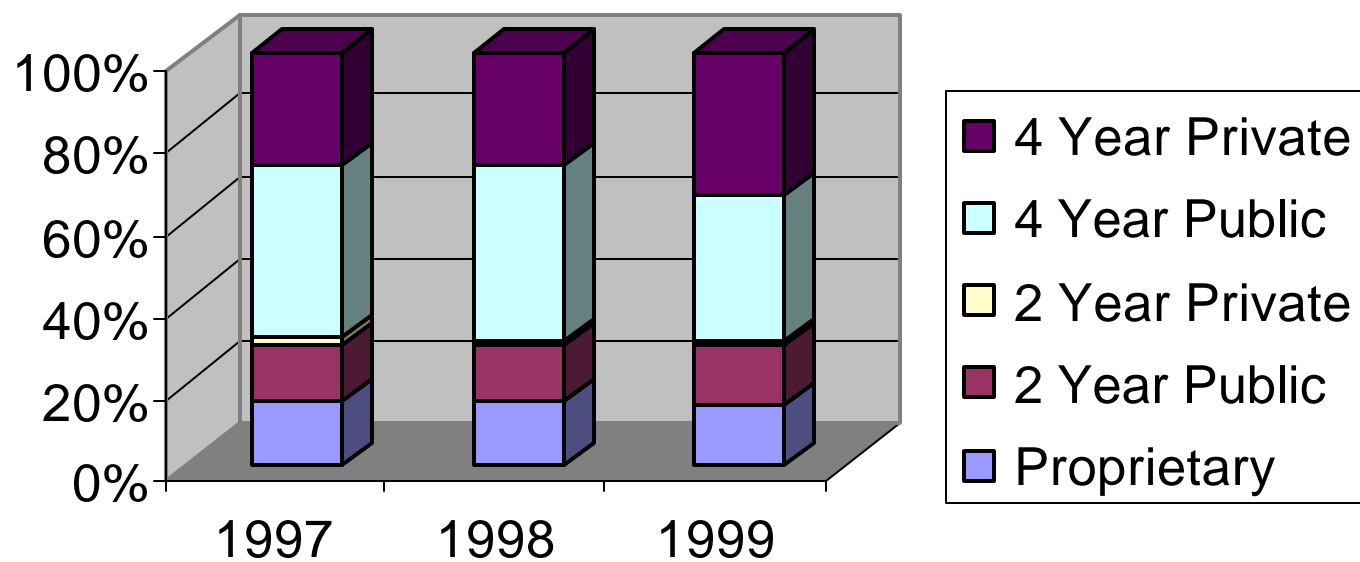
## ***Defaulter Characteristics***

- Did not have the advantage of their full 6 month grace as the result of late enrollment notification.
- Withdrew from school and did not complete their studies.
- Have had bad telephone numbers during the life of the loans.
- Have not been successfully contacted by telephone during the collection period.



# ***Estimated Makeup of Stafford Cohort Rate***

**Percent of Cohort Rate by School Type**





# ***Reducing Delinquency and Default: Short Term and Long Term Solutions***

- What steps can I take to treat the causes of delinquency and default?
- Treating the symptoms: What can I do immediately?



***A Short Term Solution:***

***Late Stage Delinquency  
Assistance***



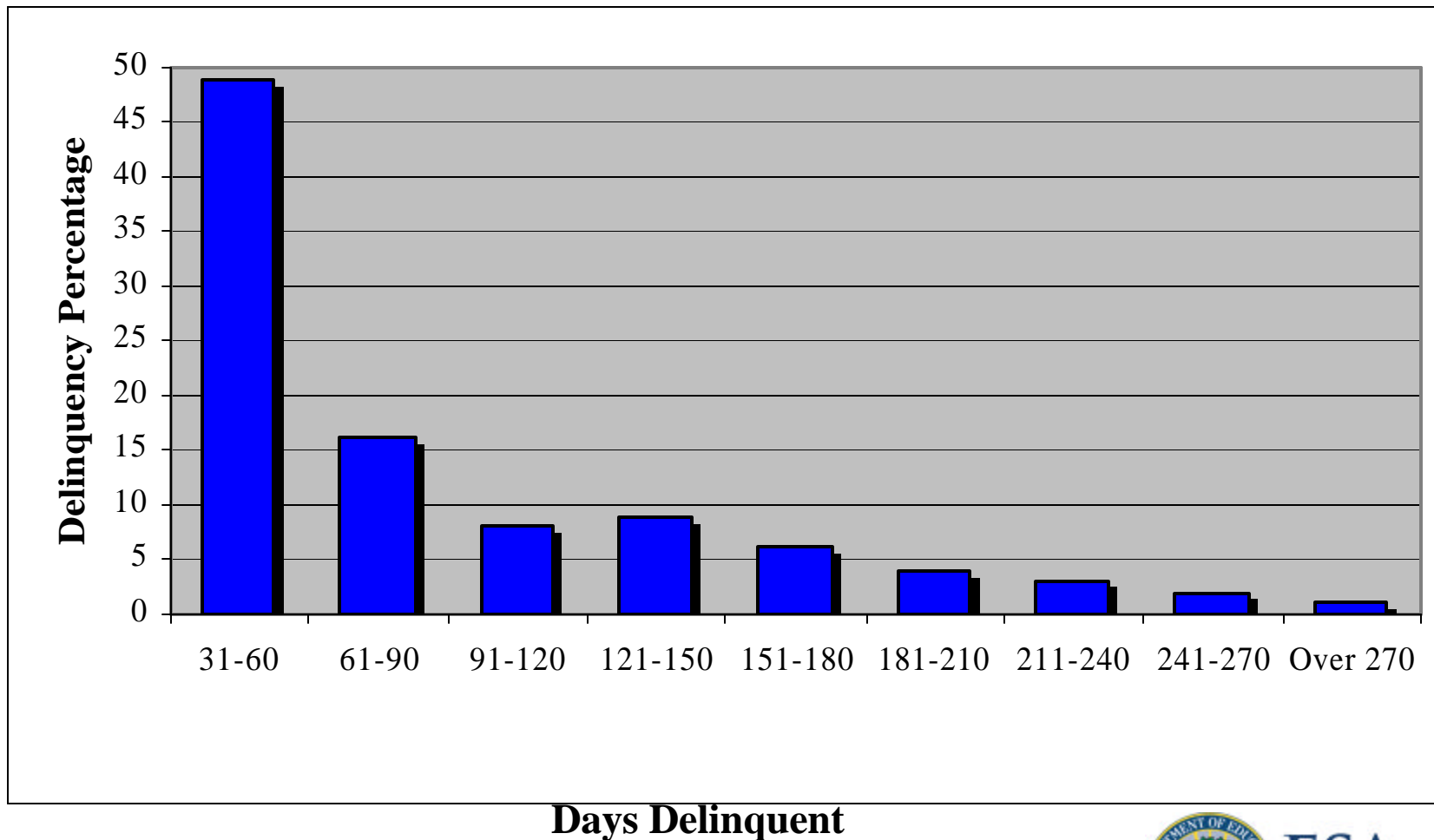
# ***Late Stage Delinquency Assistance***

- Late stage delinquency
  - Borrowers who are more than 240 days but less than 361 days delinquent in making payments on a Stafford subsidized or unsubsidized loan (or a Perkins Loan) are said to be in “late stage delinquency.”
- Late Stage Delinquency Assistance
  - Targeted assistance.





# ***Typical Institutional Borrower Delinquency Pattern***





# ***Axioms***

- Focus on the few rather than the many: Your lender or servicer has done a good job in moving the majority of your borrowers into repayment but may need your help with the few borrowers who end up in the 'late stage' category. These few make a big difference.
- Special relationship: Many late stage borrowers will avoid talking with your lender or servicer but will talk to you.
- Special knowledge: You may know ways to contact a late stage borrower which your lender/servicer does not know.



# ***Schools Can Help***

- Assist your lender or servicer in finding and counseling severely delinquent borrowers
- Schools have options
  - Contact the borrower and counsel, providing the borrower with applicable deferment or forbearance forms
  - Contact the borrower and transfer them to your lender or servicer (three-way call)
  - Talking to the borrower makes all the difference



## ***Your lender or servicer may offer support for your efforts***

- Some things you might consider asking for:
  - delinquency information which is “cohort specific,”
  - scripts or training on how to counsel ‘late stage’ borrowers, or
  - assistance while on a call with a late stage delinquent borrower (three-way call).



# ***Schools have choices***

- Late stage delinquency assistance is not required.
- Do as little or as much as you choose.
- Do it your way, depending upon availability of staffing and other resources.
- Your efforts may be reflected in fewer people defaulting on loans, a lower CDR for your institution, and your institution sending fewer dollars to the Debt Collection Service (DCS)



## ***Suggestions***

- Check monthly to identify borrowers who have slipped into late stage delinquency.
- Attempt to contact these borrowers and influence them to enter repayment or otherwise cure their delinquency.
- Work smart, not hard. Be creative. Find a way to maximize results with a minimum investment in time, staff and money.
- Start with borrowers in your current cohort.
- Work closely with your lender or servicer.



# ***The Long Term Solution:***

## ***Creating a Default Prevention Plan***



# ***Creating a Default Prevention Plan***

- What Should I do first ?
- What Steps do I take?
- What are my available resources?





## ***What Should I do first ?***

- Establish a Default Prevention Team



# ***What Should I do first ?***

- Default Prevention Team Members
  - Senior Management
  - Business Office
  - Admissions
  - Registrar
  - Financial Aid
  - Alumni Affairs
  - Student Representative
  - Faculty



# ***What Should I do first ? Default Team Functions***

- Collect and analyze data and draw conclusions.
- Create your institution wide Default Prevention Plan.
- Implement Plan.
- Assess effectiveness of the Plan.



## ***What Steps do I take?***

- Define the role and mission of the Default Prevention Team,
- Analyze student populations,
- Identify common characteristics,
- Examine variables,
- Develop a Default Prevention Plan, and
- Implement and assess the effectiveness of the Plan.



# ***Data Collection and Analysis***

- What data do I need and where do I get it?
- How do I analyze the data?
- What might the data tell me?
- What do I do with the data?



# ***What are my available resources?***

- Institutional student and alumni records and information, and
- Department of Education Data:
  - School Cohort Default Rate History Report (Loan Record Detail Report)
  - NSLDS School Repayment Loan Detail Report
  - NSLDS Financial Aid History Report,
    - For more information refer to <http://www.ifap.ed.gov/drmaterials/FinalCDRG.html>
- Servicer and Guaranty Agency Reports



# ***Analysis of Data: Default Reporting Application***

- Assists in data analysis
  - Helps in determining why borrowers defaulted
  - Assists in identifying Servicer and Guaranty Agency performance and due diligence
  - Assists in identifying common characteristics of defaulted borrowers
  - Compares Draft and Official Rates



# ***What am I looking for? What does the data say?***

- Common characteristics
  - Defaulters and Non-defaulters
  - Borrowers and Non-borrowers
- Institutional variables
  - Year in College
  - Field of Study
- Demographic variables
  - Student Population by County
  - Student Population by High School
- Draw conclusions from the analyses





## ***Formulate a Plan: Items for Consideration***

- Use your data in your school's plan.
- Transform conclusions into action steps that are consistent with institutional:
  - philosophy
  - policy
  - resources
  - goals.



## ***Formulate a Plan: Items for Consideration***

- Set realistic and attainable Goals.
- Assign responsibility for action steps
- Establish time frames.
- Assess progress: How will you know when your goals are attained?
- Inform senior management and your institution of progress.



# ***Federal Perkins Loan Program***

- History and Facts:
  - Began 1968
  - Need based low interest loan
  - Administered on Campus
  - Annual Funding \$100 million
  - \$945 million currently in default



# ***Federal Perkins Loan Program: Reducing Default***

Default Reduction Assistance Program (DRAP):

- Voluntary and cost free
- ED initiated letters to borrowers
- Intended to get borrowers into repayment before going to collection
- DRAP Questions- Campus-Based Programs  
Systems Division: 202-377-3180



## ***Tool Kit – What's in It?***

- Default Management Checklist
- Default Reporting Application Request



## ***Regional Contacts***

- Late Stage Delinquency: Local DLSRO  
Region VI Dallas (214) 880-2405
- Creating A Default Prevention Plan:  
DLSRO - Sue Goldman (214) 880-2424
- Perkins DRAP:  
Sherraine Green (202) 377-3185



# ***Questions and Comments***